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Albany Oil & Gas Limited annual report 1980

ALBANY OIL & GAS LIMITED

BOARD OF DIRECTORS

Leonard Shapiro, Calgary
Anton Vassil, Calgary
Thomas R. Vukovich, Calgary
Frank E. McConnell, Toronto
Nathan L. Sandler, Toronto

OFFICERS

Leonard Shapiro
President

Anton Vassil
Executive Vice-President & Treasurer

John Stein
Secretary

Thomas R. Vukovich
Vice-President

Jan Turcan
Vice-President

Martin Hall
Financial Controller

SENIOR PERSONNEL

I. H. Sam Barghshoon
Chief Geologist

John Parry
Land Manager

Carola Bedau
Administrative Assistant

HEAD OFFICE AND EXECUTIVE OFFICE

805 Dome Tower
333 - 7th Avenue S.W.
Calgary, Alberta, Canada
T2P 2Z1
Telephone: (403) 261-0601
Telex: 03-825679

EUROPEAN/CORRESPONDENCE OFFICE

Kaiserswerther Strasse 196
D - 4000 Dusseldorf 30,
F. R. Germany
Telephone: (211) 43 47 47
Telex: 858-4433

U. S. OFFICES

P. O. Box 6
Laurel, Montana
U.S.A. 59044

Suite 200, 200 - 16th Street
Denver, Colorado U.S.A.
80202

SUBSIDIARY COMPANIES

ALBANY OIL & GAS, LTD.
(a Nevada Corporation)

CONREGO NICKEL MINES LIMITED
(Ontario Corporation)

AUDITORS

Thorne Riddell & Company
Calgary

LEGAL COUNSEL

McLaws & Company
Calgary

BANKER

Canadian Imperial Bank of Commerce

REGISTRAR & TRANSFER AGENT

Montreal Trust Company
Toronto, Winnipeg, Calgary

SHARES LISTED

The Toronto Stock Exchange
(Symbol AYO)

PRESIDENT'S MESSAGE

In July of 1979, ten months before Albany's 1980 year end, Albany underwent a change in its Board of Directors and Management which arose from a change of control of the Company. Basically, the only assets held by Albany at that time were approximately $1,800,000 of cash, an interest bearing Promissory Note for $2,450,000 and sundry insignificant non-producing properties. It was from this position, one year ago, that Albany's new management began to implement a strategy to build up the Company.

Our three priorities for the year were: to build a strong working team; to assess the various exploration alternatives available for Albany in Canada and the United States; and to expose Albany's plans to the financial community in North America and Europe with the purpose of augmenting the Company's working capital by means of joint ventures.

I am pleased to be able to inform our shareholders and investors that we have built the foundation of a management team and key staff, with experience from the fields of engineering, geology, oil and gas banking, accounting, land management and international finance.

Secondly, we looked very strongly at entering into the United States energy sector for the obvious reasons of higher prices and immediate cash flows. We started initially by participating in some smaller exploration programs before making the commitment of taking 25% of a large land position.

In addition to the exploration and land purchases in the United States, we have recently participated in the purchase of a drilling company which is intended to drill our extensive acreage. It is important to mention here that included with this purchase, Albany acquired some very good oil, gas and mineral properties in the United States and Australia.

In Canada, we started by purchasing certain selected lands and reserves at favourable terms for the Company. We have also made plans for a geophysical program to be offered in Canada and an exploration program for Canada and the United States.

Throughout the year, we have made the financial community in both North America and Europe aware of Albany's plans and its activities. From our initial meetings we have received a positive response with respect to a proposal for increasing the working capital through a convertible debenture.

I am personally very thankful for all the valuable support and direction which has been given to the Company by my colleagues, investors and the financial community who have concerned themselves with Albany's growth.

I do not doubt if we continue to be sensitive to the various developments in the energy and resource fields that growth and asset appreciation will continue to attend this Company.

Respectfully Submitted,

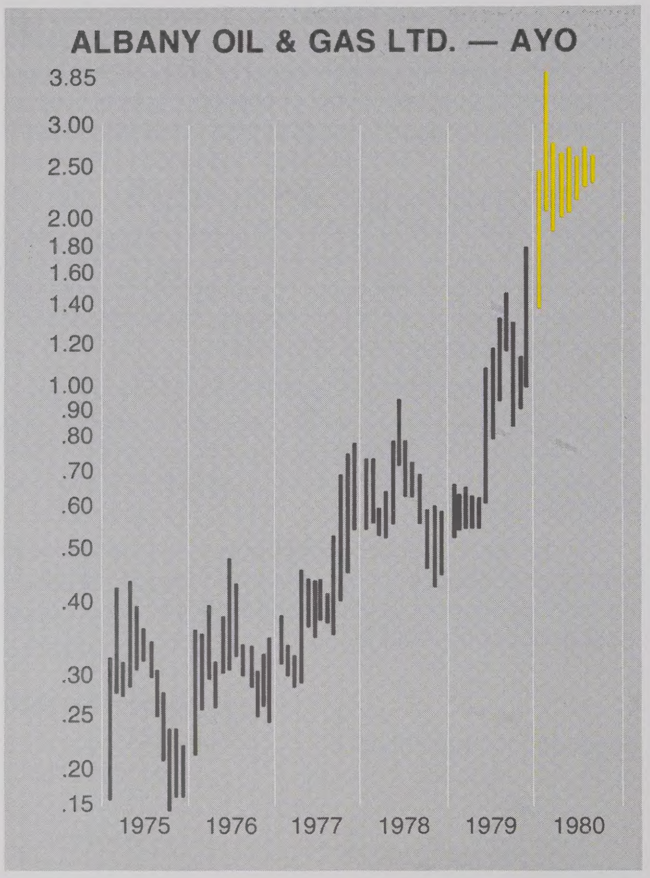
L. Shapiro

LEONARD SHAPIRO
PRESIDENT

SUMMARY OF OIL/GAS WELLS

	GAS	OIL	CASED/ CASED & TESTING	DRY AND ABANDONED	TOTAL
CANADA	5				5
U.S.A.	7	15	7	2	31

REPORT TO SHAREHOLDERS



ALBANY OIL & GAS LIMITED
(Toronto Listed)

1980	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	$3.80	$2.70		
Low	$1.43	$2.00		
Volume of Trading	6,282,568	943,720		

1979	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	$ .68	$1.10	$1.49	$1.80
Low	$ .53	$ .56	$ .81	$ .85
Volume of Trading	828,334	2,742,965	4,519,425	3,044,016

1978	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	$ .75	$ .95	$ .79	$ .61
Low	$ .53	$ .53	$ .57	$ .43
Volume of Trading	540,720	1,639,029	1,383,506	505,046

During its 1980 financial year, Albany Oil & Gas Limited, commenced a new strategy to build up the Company's assets. Our approach, as outlined in the following pages, has been to participate in a variety of projects of lower risk which would yield immediate cash flow and have potential for further development.

In the U.S. Albany committed to exploration and development projects, totalling approximately 31 wells, in the States of New Mexico, Texas, Oklahoma, South Dakota and Nebraska. The drilling of these wells started during autumn 1979 and the first wells were placed on production in February, 1980.

In addition to this drilling program, Albany participated for 25% in a land acquisition program totalling some 380,000 acres of land. Albany's total land holdings in the U.S. now amount to approximately 450,000 gross acres.

In Canada, specifically Alberta, your Company purchased varying interests of five shut in gas wells. These purchases were completed on favourable terms for Albany and provided the Company with good reserve assets.

Added to those reserves has been the acquisition of leases and options of about 14,000 acres of land in Alberta. Some of this acreage is located adjacent to an oil field where recent land sales have realized a value several times higher than that paid by Albany in purchasing its land.

Most recently, after the 1980 year end, Albany negotiated the acquisition of a drilling company with mineral properties in the U.S. and Australia (briefly described in report).

Also in the 1980 fiscal year, the company purchased shares in Barymin Explorations Limited.

The audited financial statements accompanying this report reflect the financial position of the Company for the fiscal year ending May 31, 1980 with comparative figures at May 31, 1979. Highlights are as follows:

(a) Expenditures of $2,150,000 on property plant and equipment of which $113,000 was financed by interest free debt obligations.

(b) Commencement of cash flow in February, 1980 from the Christie property.

(c) Receipt in June, 1980, of $1,416,000 from the first Promissory Note.

(d) Interest income of $561,000 from securities held while the exploration and development program was being planned and executed.

(e) Working capital at year end of $622,000 plus a Promissory Note and accrued interest amounting to $1,416,000 receivable on June 1, 1981.

(f) Management's intention is to shelter the $576,000 of deferred income taxes included in current liabilities as part of its exploration program.

The goal of this past year has been to initiate a new strategy to build the Company. It is management's intention to continue developing Albany's asset position and to complete the present plans of strengthing working capital by way of joint venture funds and a convertible debenture.

ON BEHALF OF THE PRESIDENT
AND THE BOARD

T. R. VUKOVICH
DIRECTOR

UNITED STATES
OIL & GAS EXPLORATION

ALBANY — FLARE

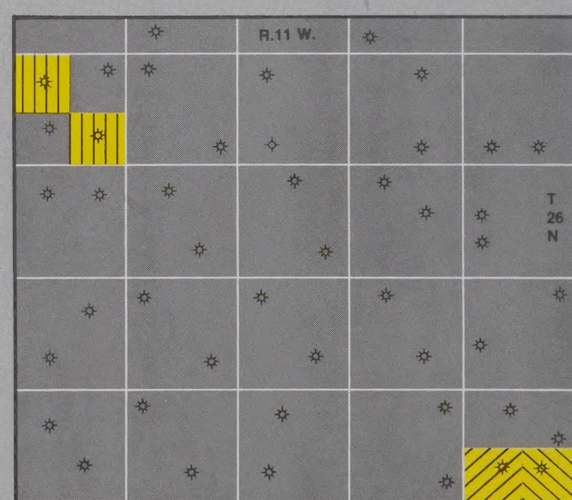
In collaboration with Flare Energy Corporation headquartered in Denver, Albany participated in four exploratory and development projects totalling nine wells, in the States of Nebraska, New Mexico, Oklahoma, and South Dakota. The drilling program which started in September 1979 concluded during August 1980.

BASIN DAKOTA PROJECT

The Basin Dakota Project is situated in San Juan County, State of New Mexico, some 42 miles east of the Tocito Dome oilfield. The four scheduled wells were drilled late 1979 and early 1980. They were cased and completed in the Lower Cretaceous Dakota Sand, Mesozoic Era encountered at about 6,400 feet. Two wells were prepared for and placed on production in January 1980. The remaining two wells will be placed on production in the near future.

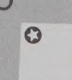
TOCITO PROJECT

The Tocito Project is situated on the southwest margin of the San Juan Basin in the northwestern corner of the State of New Mexico and some 8 miles east of the Tocito oilfield. An exploratory test was drilled to about 5,000 feet and penetrated the Enfracta formation. The primary objective oil prospective hori-



ALBANY — FLARE
BASIN DAKOTA PROJECT
SAN JUAN COUNTY, NEW MEXICO

☼ GAS WELL ✧ ABANDONED WELL
ALBANY W.I. 3.768750% ALBANY NET W.I. 3.124746%
ALBANY W.I. 1.884375% ALBANY NET W.I. 1.554266%
ALBANY W.I. 1.177391% ALBANY NET W.I. 0.970830%
ALBANY EARNED LAND



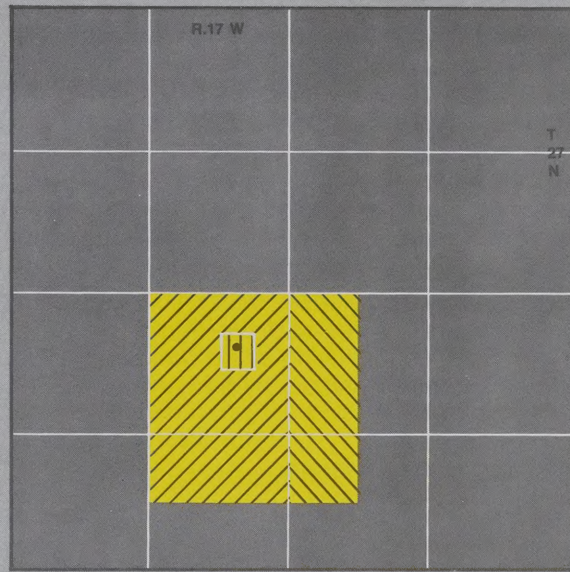
zon, the Lower Cretaceous Dakota Sand, was found unproductive, leading to the plugging and abandonment of the well.

DOUBLE "T" PROJECT

The Double "T" Project straddles a two-state area, namely South Dakota and Nebraska. One deep test, 3,000 feet, was drilled to the basement rock. The primary objective was the Middle Devonian which was barren. Subsequently, the well was plugged and abandoned.

OGLESBY PROJECT

By participating in the Oglesby Project, Albany acquired variable working interests in approximately 3,650 surface acres in Township 24N, Range 14 and 15 East, I. M., Rogers County, Oklahoma. Three tests were drilled, one penetrated the basement rocks, and the other two tests, the Arbuckles. All three wells were cased and are currently undergoing testing operations in the various potentially hydrocarbon-bearing horizons. Well Mason 29-1 encountered the upper slice of the Mississippian with about 35 feet of net pay. The results of the tests will be made public as soon as the information becomes available.

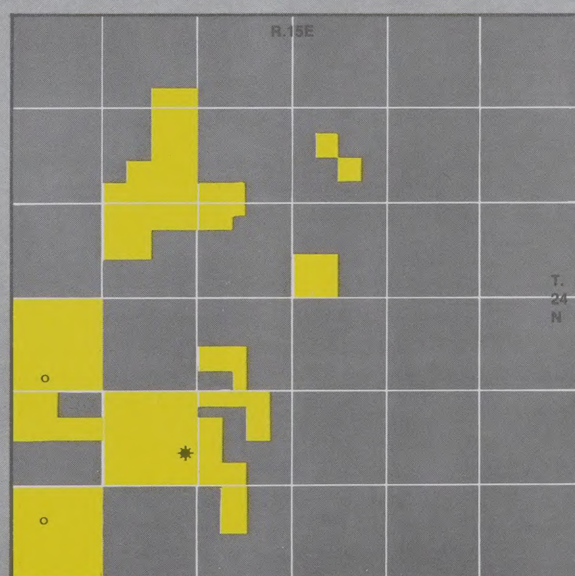


ALBANY — FLARE
TOCITO PROSPECT
SAN JUAN COUNTY, NEW MEXICO

EARNING WELL
ALBANY INTEREST ACREAGE
ALBANY W. I. BPO 15.0750% ROYALTIES 16.6667% FREEHOLD 6.2500% GORR & SEVERANCE AND LOCAL TAXES.
ALBANY W. I. APO 7.5375% ROYALTIES 16.6667% FREEHOLD & SEVERANCE AND LOCAL TAXES.
ALBANY W. I. 7.5375%
ALBANY W. I. 3.76875%

ALBANY — FLARE
DOUBLE "T" PROSPECT
TODD & TRIPP COUNTIES, SOUTH DAKOTA
KEYA PAHA COUNTY, NEBRASKA

EARNING WELL
PURCHASED LAND
SECTION AND OPTION LANDS
ALBANY W.I. 15.0750% ROYALTIES 12.5% FREEHOLD PLUS SEVERANCE AND LOCAL TAXES
24 SECTIONS TO BE SELECTED ALBANY W.I. 7.5375%



ALBANY — FLARE
OGLESBY PROJECT
ROGERS COUNTY, OKLAHOMA

EARNED LANDS
ALBANY W.I. VARIABLE
WELLS BEING TESTED
OIL AND GAS WELL

ALBANY — CHRISTIE

In association with Christie Energy Company of Austin, Texas, Albany has taken part in this project which consists of a six-well program in Erath, Comanche and Eastland Counties, State of Texas.

The regional geological setting is relatively complex in terms of cyclic depositional environments and sedimentation. Subsistence followed by the Ouchita overthrust caused a series of faults, similar to echelor faulting phenomena stretching from the overthrust in an easterly direction with the fault plane oriented from north to south. The regional dip trends west and is nearly uniform commencing at the Ouchita overthrust. The three zones of primary hydrocarbon importance are:

1) Shrawn Land
2) Bend Conglomerate
3) Duffer Carbonates

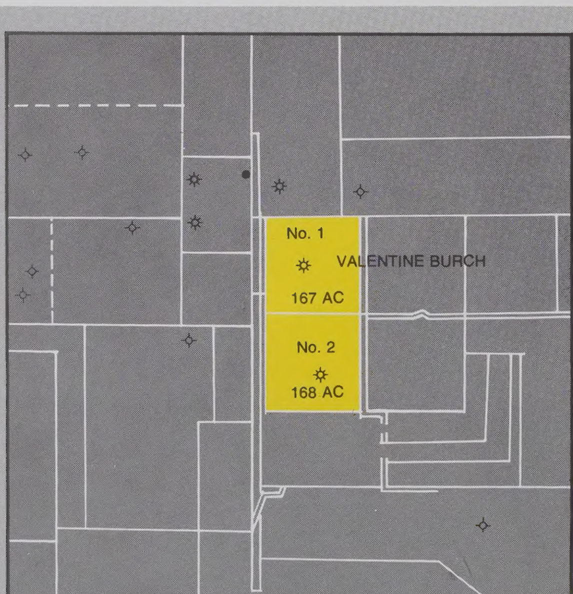
The six wells were drilled to about 3,550 feet and they all were cased. Two wells have been completed and placed on steam during the month of February 1980. The remaining four wells are either completed but not adequately tested, or are awaiting completion. Initial results on two of the wells are not encouraging.

The extension of this project involves a twelve well option program. Final decision will be made pursuant to data compilation and review of the geological setting.

ALBANY — CHRISTIE
EASTLAND, COMANCHE AND ERATH COUNTIES, TEXAS

ALBANY INTEREST ACREAGE
ALBANY W.I. BPO 8.333325%
ROYALTIES 12.5% FREEHOLD PLUS 6.25% GORR
ONE WELL HAS AN ADDITIONAL 6.25% GORR
ALBANY W.I. APO 6.666660%
ROYALTIES 12.50% FREEHOLD
AND 6.25% GORR

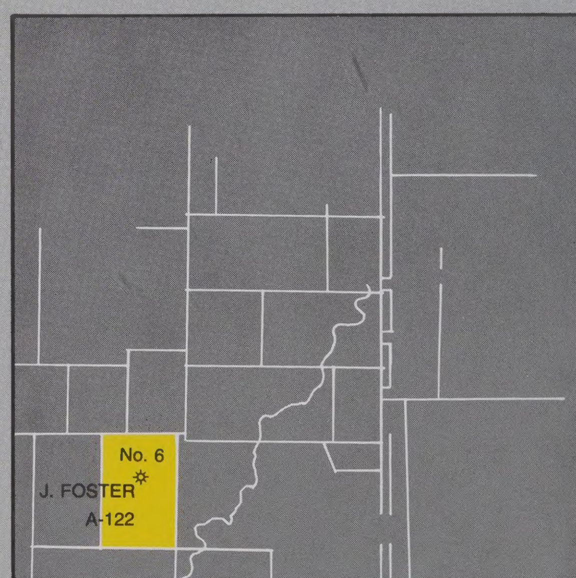
GAS WELL
ABANDONED WELL



ALBANY — CHRISTIE
EASTLAND, COMANCHE AND ERATH COUNTIES, TEXAS

ALBANY INTEREST ACREAGE
ALBANY W.I. BPO 8.333325%
ROYALTIES 12.5% FREEHOLD PLUS 6.25% GORR
ONE WELL HAS AN ADDITIONAL 6.25% GORR
ALBANY W. I. APO 6.666660%
ROYALTIES 12.50% FREEHOLD
AND 6.25% GORR

OIL WELL
GAS WELL
ABANDONED WELL
SUSPENDED GAS WELL



ALBANY — CHRISTIE
EASTLAND, COMANCHE AND ERATH COUNTIES, TEXAS

ALBANY INTEREST ACREAGE
ALBANY W.I. BPO 8.333325%
ROYALTIES 12.5% FREEHOLD PLUS 6.25% GORR
ONE WELL HAS AN ADDITIONAL 6.25% GORR
ALBANY W.I. APO 6.666660%
ROYALTIES 12.50% FREEHOLD
AND 6.25% GORR

GAS WELL

ALBANY — FINCANNON

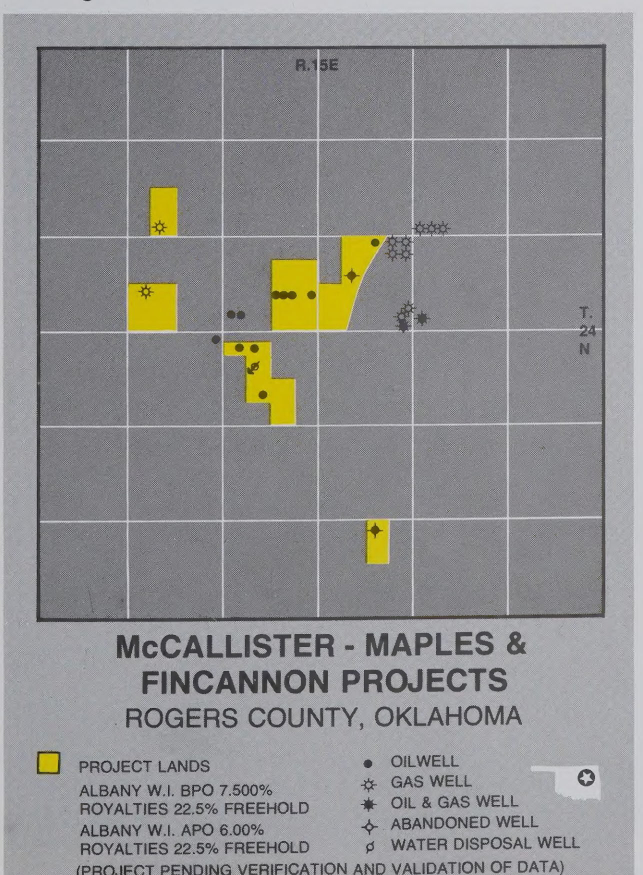
The Fincannon 80-acre project covers the south half of the SE/4 of Section 22, Township 24N, Range 15E, Rogers County, State of Oklahoma.

Hitherto, four wells have been drilled and cased. Three have been completed and tested, with one well being currently on production. The fourth is awaiting completion. The main producing formation to which proven developed hydrocarbon reserves have been assigned is the Mississippian Carbonate Complex encountered at approximately 1,120 feet K. B. M.

Pursuant to a backpressure test conducted in Well Fincannon No. 1, the calculated absolute open flow potential has been determined to be 5,800 MSCF/D. Wells Fincannon No. 2 and No. 3 have not been adequately tested. During the post stimulation cleanup period, the wells produced a large volume of gas, and in case of Well Fincannon No. 3, oil flowed along with the natural gas.

The Mississippian Carbonate Complex is a blanket deposit which was subject to vigorous erosion. Several porous bands exist vertically within the confines of this complex, the lateral area being limited in extent. Structurally elevated porous layers in the upper Mississippian sheet are filled with natural gas, but the deeper ones are saturated with oil and gas. The salient parameter governing well productivity is the variable chalk content of the complex.

Albany participated in the project for a 12.50% working interest.



McCALLISTER - MAPLES & FINCANNON PROJECTS
ROGERS COUNTY, OKLAHOMA

ALBANY — McCALLISTER/MAPLES

This project is currently undergoing negotiations and is still pending verification and validation of the information, transmitted by the operator, upon which the economic analysis was based.

The project comprises of approximately 1,000 acres, situated in Township 24N, Range 15E, Rogers County, State of Oklahoma. Hitherto, thirteen wells have been drilled on the acreage to a depth of about 1,200 feetK. B. M. Of these wells, six are currently producing at a daily average of 60 stock-tank barrels of oil with the gas being collected and sold (350 MSCF/D) at $1.53 per MSCF. Six wells have been cased and are awaiting completion and are to be placed on steam. The thirteenth well was converted to a water disposal well.

The primary producing formation is the Mississippian Carbonate Complex, a blanket deposit which was subject to vigorous erosion. From production performance, it is readily inferred that the complex is moderately chalky with the upper segment being argillaceous. It is constructive to note that in chalky limestones which are generally characterized by high porosity and elevated water saturation, a large portion of the connate water is held by capillary forces which immobilize the water phase allowing the oil to move freely and occupy the larger capillary tubes present within the matrix of the carbonate.

A general review of the drilling results demonstrated that most wells drilled near the western boundaries of land, Sections, 5, 8, 17, and 29 in Township 24N, Range 15E, Rogers County, Oklahoma, have encountered the Mississippian Carbonate Complex productive of oil and gas. Few wells encountered facies change within the complex, and the porous bands were totally absent.

The program involves an additional twenty development wells which will be financed from production revenue.

ALBANY — EAGLE LAND ACQUISITION

This petroleum and natural gas land acquisition project in the United States of America is considered to be an achievement by Albany in broadening the spectrum of its activities in the United States on a long term basis. After evaluation of the various alternatives available in establishing a position in the United States energy sector, Albany has decided to move in on a ground floor basis by acquiring certain selected oil and gas leases. This position has enabled Albany to directly determine its drilling programs and to better control the selection of an operator.

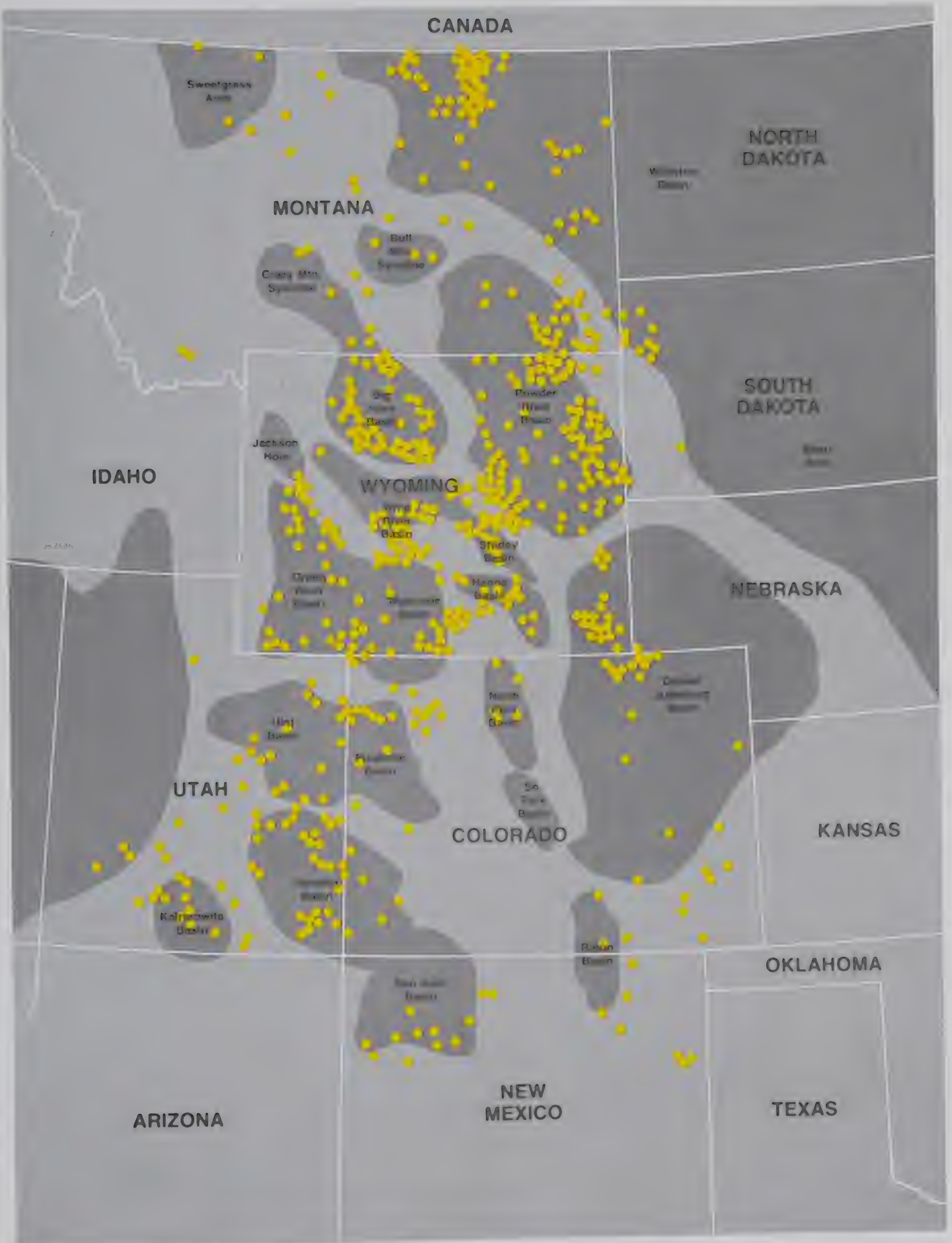
The majority of these land holdings are situated in major petroleum provinces in the United States, adjoining oil, natural gas and condensate fields in the Williston Basin, Powder River Basin, Denver Julesburg Basin, Big Horn Basin, Wind River Basin and many others. Some of the acreage lies within the Overthrust Belt that winds like a ribbon from Alaska down to Arizona with recent oil and gas discoveries that form major fields.

In collaboration with Eagle Exploration Company of Denver, headed by lawyer, Raymond Joeckel (former Land Manager for the Shell Oil Company) and geologist Norman Jeffries, the geological potential of hydrocarbon bearing sediments, will be categorized and divided into drilling prospects and assessed in terms of reserve classification. After joint evaluation, promising prospects will be drilled by the consortium.

The following table assembles the acquired acreage according to geographical distribution and presents Albany's net acreage.

TABLE OF ACQUIRED ACREAGE

LEASE IDENTIFICATION	COLORADO	MONTANA	NEVADA	UTAH	WYOMING	OTHER STATES	TOTAL	ALBANY WORKING INTEREST, PERCENTAGE OF TOTAL	ALBANY NET ACREAGE
Mid-America Leases	7 288.82	111 129.36	—	34 666.60	65 159.91	—	218 244.69	25	54 561.17
Landis-Founders Leases	9 545.83	27 912.75	2 600.00	18 744.93	30,735.68	4 304.85	93 844.04	25	23 461.01
Feil Leases	—	21 295.87	—	14 743.55	14 797.17	—	50 836.59	25	12 709.15
Ekalaka Leases	—	3 089.98	—	—	—	—	3 089.98	12	370.80
Fort Laramie Leases	—	—	—	—	7 451.15	—	7 451.15	25	1 862.79
Leases Paid for But Not yet Finalized	—	—	—	—	—	8 455.96	8 455.96	25	2 113.99
TOTAL	16 834.65	163 427.96	2 600.00	68 155.08	118 143.91	12 760.81	381 922.41	—	95 078.91



ALBANY — EAGLE LAND ACQUISITION

ALBANY — CHRISTIE

CANADA
OIL & GAS EXPLORATION

ALBANY — LOCKWOOD

Albany Oil and Gas has recently purchased a 29% working interest in the well Lockwood Midale Wayne 7-23-27-18 W4M. The well is dually completed in the four Viking Sands, A, B, C, and D and the Glauconitic A and B formations.

The calculated aggregate absolute open flow potential is reported at 2,305 MSCF/D. The gross proved marketable natural gas reserves for the two completed zones have been appraised at 5,150 MMSCF/D by independent petroleum consultants.

Additional indicated natural gas reserves are attributed to the Victoria, Medicine Hat and Basal Quartz formations. Furthermore, a new location is currently under review to explore the additional reserve potential.

The acquisition of these reserves has been obtained on very favourable terms for Albany.

ALBANY — LOCKWOOD PROJECT
WAYNE AREA
ALBERTA

ALBANY — CHRISTIE

ALBANY — H & P INVESTING

Albany has currently undertaken negotiations with H & P Investing Group to purchase its interests in four shut-in wells and earned acreage in three Alberta areas, namely, Donalda, Provost and Retlaw.

This joint venture was completed in collaboration with Gascome Oils Ltd., leading to four gas-producing wells in the Viking, Glauconitic, Ostracod and Basal Quartz sands.

The interests vary between 18% and 17.7% before payout and between 17% and 9% after payout of the cumulative capital expenditure incurred in this joint venture.

The undiscounted cash flows from future gas sales attributable to these interests, calculated by independent petroleum consultants, are $1,186,827 for the proved reserves and $804,276 for the probable additional reserves.

ALBERTA LAND ACQUISITIONS

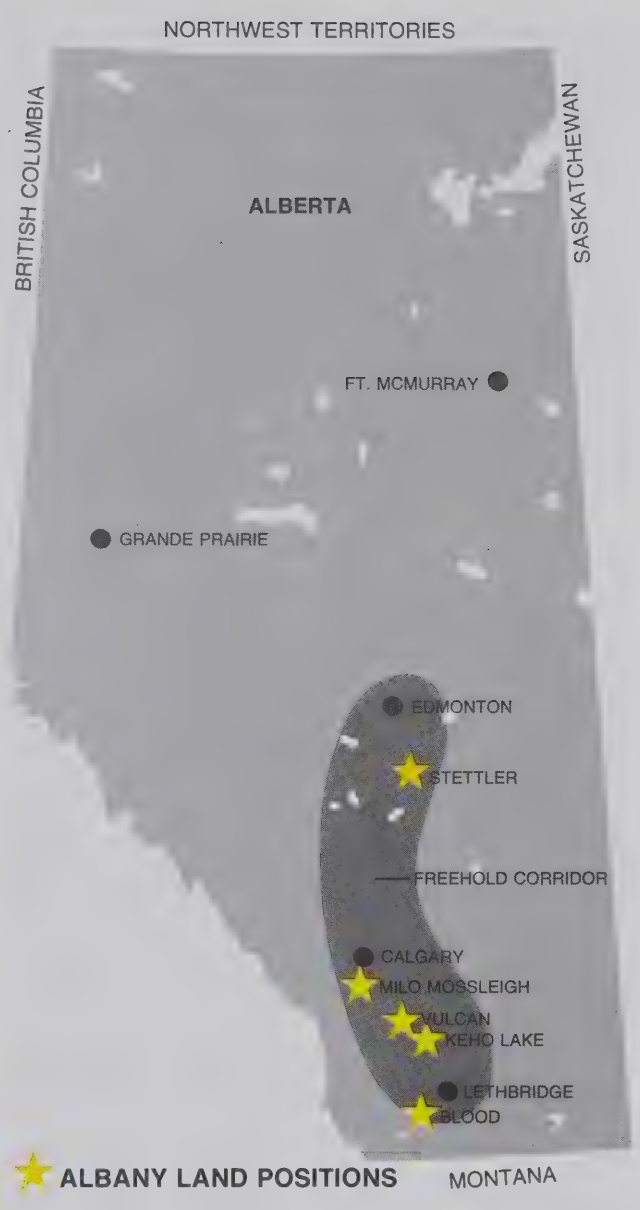
Albany Oil & Gas Limited has been involved in acquiring both freehold mineral leases and options to lease in the province of Alberta. These leases have been acquired directly by Albany or purchased in conjunction with partners.

The objective of this project is to acquire large land blocks at the lowest cost in areas that the company has examined as having a high potential for the discovery of hydrocarbons.

Lease options serve this purpose very well in that the company acquires the right to lease the land at some future date for a very small bonus, which is not paid until the option is exercised. This gives the company one to three years in which to examine the land from a geological and geophysical point of view.

To date, the company has acquired leases or options of about 14,840 gross acres. These lands range from development to wildcat acreage and are located in the Freehold Corridor of central and southern Alberta.

Some of the leases in Alberta which Albany has acquired are located within an oil and gas field where recent land sales have obtained prices approximately ten to fifteen times of Albany's purchase price.



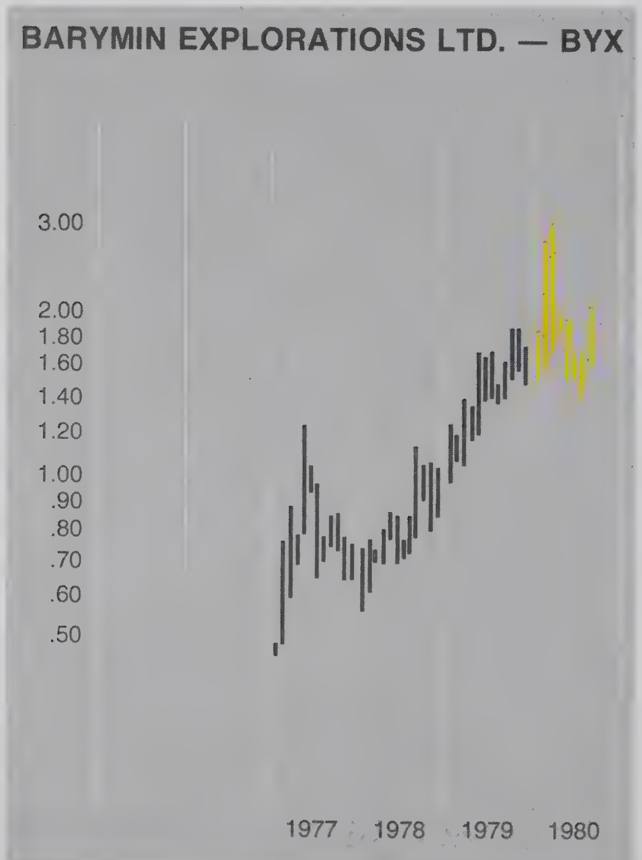
PARTICIPATION IN COMPANIES

Together with an associated company and partners, Albany participated in the purchase of shares of Barymin Explorations Limited.

The principal asset held by Barymin is Yava Mines Limited, a lead mine located near Sydney, Nova Scotia.

From April 1979 to the end of April 1980 the mine produced 117,770 tons averaging 4.5% of lead, and that included four months of poor grade material at the very beginning of the operation. The mill is now averaging 600 tons per day and it is hoped it will be up to 700 tons per day shortly. A project in mind for 1981 is to increase milling capacity to 1000 tons per day at a cost of about $1,000,000.

A second shipment of concentrate has just been made from Sydney, bound for Metallgesellschaft of West Germany, who have contracted to purchase all production for a sixteen year period, and provide a significant portion of financing for further exploration and development and mill expansion.



BARYMIN EXPLORATIONS LIMITED (Toronto Listed)

1980	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	$2.75	$2.00		
Low	$1.50	$1.50		
Volume of Trading	1,883,425	164,020		

1979	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	$1.40	$1.68	$1.70	$1.90
Low	$ .99	$1.18	$1.38	$1.46
Volume of Trading	443,834	456,725	333,120	489,300

1978	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	$ .76	$ .87	$1.15	$1.05
Low	$ .56	$ .07	$ .71	$ .56
Volume of Trading	48,100	97,100	91,583	355,450

ALBANY DRILLING

Under the operating name of Retriever Drilling Inc. of United States, Albany has acquired, after its 1980 year end, operating control of a drilling company and other associated companies, which have significant interests in oil, gas and mineral properties in Australia and the United States.

The drilling company's major activity will be to drill on Albany's extensive acreage and to provide a complete drilling service to clients in the energy and resources sector.

The mineral properties involve holdings of titanium, zirconium, columbium, uranium, tantalium and a coal producing property which is located in Montana and Wyoming.

RETRIEVER DRILLING INC. & COAL MINING

CONSOLIDATED BALANCE SHEET

AS AT MAY 31, 1980

ASSETS	1980	1979
CURRENT ASSETS		
Cash and short-term deposits	$ 332,878	$1,822,815
Accounts receivable	34,483	71,728
Due from affiliated companies	26,364	—
Promissory note receivable including accrued interest (note 3)	1,416,526	—
	1,810,251	1,894,543
PROMISSORY NOTE RECEIVABLE, including accrued interest (note 3)	1,416,526	2,450,000
INVESTMENT IN LIMITED PARTNERSHIP	120,019	—
PROPERTY AND EQUIPMENT (note 4)	2,137,417	3,439
OTHER ASSETS	6,944	6,944
	$5,491,157	$4,354,926
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 612,567	$ 21,444
Deferred income taxes related to promissory note receivable	575,750	—
	1,188,317	21,444
LONG-TERM DEBT (note 5)	113,109	—
DEFERRED INCOME TAXES	641,018	1,025,768
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 6)		
Authorized		
4,872,417 8% Non-cumulative, redeemable, convertible, voting preference shares, par value $1 each		
9,947,583 Common shares without par value		
Issued		
6,200,792 Common shares	3,815,562	3,815,562
DEFICIT	(266,849)	(507,848)
	3,548,713	3,307,714
	$5,491,157	$4,354,926

Approved by the Board

Director

Director

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED MAY 31, 1980

	1980	1979
Revenue		
Oil and gas production	**$ 40,197**	$ 74,371
Interest	**561,425**	94,928
Gain on sale of fixed assets	**2,500**	—
	604,122	169,299
Expenses		
Field operating	**2,535**	22,046
Administrative and general	**153,890**	172,945
Depletion and depreciation	**15,698**	1,495
	172,123	196,486
Earnings (loss) before the following	**431,999**	(27,187)
Write-down of petroleum and mineral property	**—**	(338,016)
Earnings (loss) before income taxes and extraordinary items	**431,999**	(365,203)
Deferred income taxes	**191,000**	4,628
Earnings (loss) before extraordinary items	**240,999**	(369,831)
Extraordinary items		
Gain on sale of property and equipment less deferred income taxes of $1,025,768	**—**	2,396,357
Allowance for decline in value of investment in other companies	**—**	(119,128)
	—	2,277,229
NET EARNINGS	**$240,999**	$1,907,398
EARNINGS (LOSS) PER COMMON SHARE		
Earnings (loss) before extraordinary items	**$0.04**	$(0.06)
Extraordinary items	**—**	0.37
Net earnings	**$0.04**	$ 0.31

CONSOLIDATED STATEMENT OF DEFICIT

YEAR ENDED MAY 31, 1980

	1980	1979
DEFICIT AT BEGINNING OF YEAR	**$(507,848)**	$(2,415,246)
NET EARNINGS	**240,999**	1,907,398
DEFICIT AT END OF YEAR	**$(266,849)**	$ (507,848)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED MAY 31, 1980

	1980	1979
WORKING CAPITAL DERIVED FROM		
Proceeds from sale of property and equipment	**$ 2,500**	$3,998,482
Less promissory note receivable	**—**	(2,450,000)
	2,500	1,548,482
Operations	**253,671**	—
Current portion of promissory note receivable	**1,225,000**	—
Incentive credits, net of additions to property and equipment	**—**	16,486
Proceeds from sale of investments in other companies	**—**	872
	1,481,171	1,565,840
WORKING CAPITAL APPLIED TO		
Additions to property and equipment	**2,149,676**	—
Less related long-term debt	**(113,109)**	—
	2,036,567	—
Operations before extraordinary items	**—**	64,701
Investment in limited partnership	**120,019**	—
Deferred income taxes related to promissory note receivable	**575,750**	—
	2,732,336	64,701
INCREASE (DECREASE) IN WORKING CAPITAL	**(1,251,165)**	1,501,139
WORKING CAPITAL AT BEGINNING OF YEAR	**1,873,099**	371,960
WORKING CAPITAL AT END OF YEAR	**$ 621,934**	$1,873,099

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MAY 31, 1980

1. ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries all of which are wholly-owned.

(b) Petroleum and Natural Gas Operations

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs relating to the exploration and development of oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, costs of drilling both productive and non-productive wells and directly related general and administrative expenses. Such costs, net of proceeds from minor disposals of property, are accumulated and depleted on a country-by-country basis using the unit of production method based upon estimated proven recoverable reserves.

Petroleum and natural gas equipment is depreciated on the unit of production method based on estimated proven recoverable reserves. Depreciation on office furniture and equipment and automobiles is provided on the reducing balance method at 20% and 30% respectively.

Substantially all of the Company's petroleum and natural gas properties are in the exploratory and development stage. Whether these properties contain reserves that are economically recoverable has not yet been determined. The recoverability of the carrying value of petroleum and natural gas properties is dependent upon the existence of economically recoverable reserves.

All of the Company's exploration and development activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

The majority of petroleum and natural gas operations are conducted jointly with, among others, companies controlled by certain directors and officers of the Company. Joint activities between the Company and companies controlled by directors and officers are conducted at the same cost per participating share of the property.

(c) Translation of Foreign Currencies

The accounts of foreign subsidiaries have been translated into Canadian funds on the following basis: current assets, current liabilities and long-term liabilities at the rate of exchange in effect at the year end; property and equipment and related depreciation and depletion at the rate at the time of acquisition; and, revenues and expenses, except depreciation and depletion, at the average rate for the year. Gains and losses on translation are credited or charged to earnings.

(d) Income Taxes

The Company follows the tax allocation method of accounting for timing differences between taxable income and income reflected in the financial statements. Timing differences arise when, for income tax purposes, the Company deducts exploration and development expenditures and capital cost allowances and includes proceeds on sale of properties on a basis different from that used in the financial statements.

(e) Investment in Limited Partnership

The investment in limited partnership is accounted for on the equity basis.

2. CHANGE IN ACCOUNTING POLICY

Prior to the 1980 fiscal year the Company followed the practice of capitalizing the acquisition costs of both producing and non-producing petroleum and natural gas properties and charging the costs to earnings if the property was subsequently surrendered. The cost of drilling a productive well was capitalized and the

cost of a non-productive well was charged to earnings when the well was determined to be dry. The costs of producing properties including development thereon were amortized on a property-by-property basis using the unit of production method based on estimated recoverable reserves of gas and oil as determined by independent professional engineers.

Effective June 1, 1979, the Company adopted the full cost method of accounting described in note 1(b). This change in accounting, which except for the impact of the capitalization of general and administrative expenses of $135,700 ($0.02 per share) has no effect on the earnings for the year ended May 31, 1980, has not been applied retroactively because the Company disposed of or wrote-down to nominal value substantially all its petroleum and natural gas property at May 31, 1979.

3. PROMISSORY NOTE RECEIVABLE

By agreement approved by the shareholders in May 1979, the Company sold certain property and equipment for cash of $1,500,000 and a promissory note bearing interest at prime plus $^3/_4$% payable as to $1,225,000 on June 1, 1980 and $1,225,000 on June 1, 1981.

4. PROPERTY AND EQUIPMENT

	1980	1979
Petroleum and natural gas properties and equipment	$2,101,597	$ 3,439
Office furniture and equipment	47,517	19,500
Automotive equipment	9,000	—
	2,158,114	22,939
Less accumulated depletion and depreciation	20,697	19,500
	$2,137,417	$ 3,439

5. LONG-TERM DEBT

This amount comprises amounts payable in respect of property acquisitions as follows:

Due July 1, 1981	$ 56,555
Due July 1, 1982	56,554
	$113,109

6. CAPITAL STOCK

The Company has reserved 300,000 common shares for issuance pursuant to an employee stock option plan. At May 31, 1980 options have been granted to directors and officers to purchase 250,000 shares at $.80 each until 1989.

7. STATUTORY INFORMATION

Remuneration paid to directors and senior officers during the year amounted to $64,845 (1979 - $51,180).

AUDITORS' REPORT

To the Shareholders of
Albany Oil & Gas Limited

We have examined the consolidated balance sheet of Albany Oil & Gas Limited as at May 31, 1980 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at May 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles which, except for the change in accounting for petroleum and natural gas operations as described in note 2, have been applied on a basis consistent with that of the preceding year.

THORNE RIDDELL + CO.

Calgary, Canada
August 8, 1980

Chartered Accountants

Albany Oil & Gas Limited

annual report 1980

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